

UNEMPLOYMENT INSURANCE FUND
SOUTH DAKOTA DEPARTMENT OF LABOR

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2009

SOUTH DAKOTA DEPARTMENT OF LABOR

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INDEPENDENT AUDITOR'S REPORT

The Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

We have audited the accompanying financial statements of the **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR** (the Fund) as of and for the year ended June 30, 2009, as detailed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

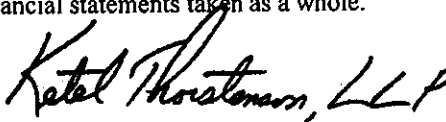
As discussed in Note 1, the financial statements present only the Unemployment Insurance Fund and do not purport to, and do not, present fairly the financial position of the South Dakota Department of Labor or the State of South Dakota, as of June 30, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **UNEMPLOYMENT INSURANCE FUND** as of June 30, 2009, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated January 5, 2010 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

January 5, 2010

SOUTH DAKOTA DEPARTMENT OF LABOR

BALANCE SHEET

UNEMPLOYMENT INSURANCE FUND

JUNE 30, 2009

Assets

Current Assets

Cash (Note 2)	\$ 9,825,123
Receivables, Net of Allowance for Doubtful Accounts of \$2,414,920	1,330,935
Receivable From Other Governments	1,418,145
Receivable From Other State Funds (Note 3)	94,905
Total Assets	\$ 12,669,108

Liabilities and Net Assets

Current Liabilities

Payable to Futures Fund	\$ 505,007
Payable to Fiscal Administration Fund	1,161,292
Payable to Employers	430,503
Payable to Employment Security Contingency Fund	157,754
Total Current Liabilities	2,254,556

Commitment (Note 4)

Net Assets

Unrestricted	10,414,552
Total Liabilities and Net Assets	\$ 12,669,108

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2009**

Operating Revenues	
Taxes	\$ 34,819,889
Grant Revenue	5,882,545
Total Operating Revenue	<u>40,702,434</u>
Operating Expenses	
Unemployment Insurance Benefits	58,493,776
Operating Loss	(17,791,342)
Non-Operating Revenue	
Revenue From the Use of Money	1,537,271
Transfers	
Transfers To Other State Funds	(462,874)
Change in Net Assets	(16,716,945)
Total Net Assets -- June 30, 2008	<u>27,131,497</u>
Total Net Assets -- June 30, 2009	<u>\$ 10,414,552</u>

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR

**STATEMENT OF CASH FLOWS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2009**

Cash Flows From Operating Activities	
Receipts From Employers	\$ 34,743,219
Receipts From Grants	5,882,545
Payments From Other Funds	480,078
Payments for Benefits	(58,493,776)
Net Cash Flows Used In Operating Activities	(17,387,934)
Cash Flows From Non-Capital Financing Activities	
Transfer To Employment Security Contingency Fund	(462,874)
Cash Flows From Investing Activities	
Pooled Investment Income	1,537,271
Net Decrease in Cash During the Year	(16,313,537)
Cash – Beginning of Year	26,138,660
Cash – End of Year	\$ 9,825,123
Reconciliation of Operating Loss to Net Cash Flows Used In Operating Activities:	
Operating Loss	\$ (17,791,342)
Increase in Receivables	(507,173)
Increase in Receivable From Other Governments	(1,269,211)
Increase in Receivable From Other State Funds	(46,149)
Increase in Payable to Other State Funds	1,795,438
Increase in Payable to Employers	430,503
Net Cash Flows Used In Operating Activities	\$ (17,387,934)

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR

NOTES TO THE FINANCIAL STATEMENTS UNEMPLOYMENT INSURANCE FUND JUNE 30, 2009

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The South Dakota Department of Labor (the Department) is the state agency responsible for providing job placement services, job training services, unemployment insurance services, and the enforcement of state labor laws. The Unemployment Insurance Fund (the Fund) is used to account for tax receipts from employers within the State of South Dakota and to account for benefits paid to unemployed persons. The accompanying financial statements present only the financial condition and results of operations of the Fund and do not represent a complete presentation of the Department's net assets and activities.

b. Fund Accounting

The accounts of the Unemployment Insurance Fund are organized for accounting and reporting purposes on the basis of fund accounting. The operations of the Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

Proprietary Funds:

Enterprise Fund - enterprise funds are used to report a governmental activity funded by a charge to external users of services.

The Fund applies all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Unemployment Insurance Fund - an enterprise fund established to account for funds that are expended for benefits paid to unemployed South Dakota workers. Fund revenues are collected from South Dakota employers based upon a percentage of qualifying wages paid, and from direct federal funding. Cash balances of the Unemployment Insurance Fund are required to be deposited with the U.S. Department of Treasury.

c. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Significant estimates not disclosed elsewhere in the accompanying financial statements include:

An allowance for uncollectible receivables is maintained at a level which management believes is adequate to absorb probable uncollectible accounts. Management determines the adequacy of the allowance based on historical data, current economic conditions, and other pertinent factors for the Fund.

It is reasonably possible that this estimate will change significantly in the near term.

SOUTH DAKOTA DEPARTMENT OF LABOR

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
UNEMPLOYMENT INSURANCE FUND
JUNE 30, 2009

(1) Summary of Significant Accounting Policies (Continued)

d. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

Proprietary funds are accounted for using the accrual basis of accounting. Revenues from unemployment taxes collected from employers are recognized in the period received because the amounts cannot be reasonably estimated prior to collection.

e. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Fund Net Assets, revenue and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

(2) Cash

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Department's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of the bank's public debt rating, which may not be less than "AA" or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 required investments to be in the physical custody of the political subdivisions or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2009, the Fund's cash consisted only of checking and pooled US Treasury Unemployment Insurance Funds. All of these accounts are insured or collateralized in the Fund's name. The Fund has no investment policies to restrict its investments beyond the state requirements noted above.

(3) Receivable from Other State Funds

The receivable from other state funds relates to unemployment insurance benefits paid for reimbursable employees:

State Government Employees	\$	43,738
State Hospital Institutions		51,167
	\$	<u>94,905</u>

SOUTH DAKOTA DEPARTMENT OF LABOR

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
UNEMPLOYMENT INSURANCE FUND
JUNE 30, 2009

(4) Commitments

Benefit payments to unemployed persons (claimants) are recorded when paid. Unemployed persons may receive benefit payments for up to the lesser of twenty-six payments at their maximum weekly amounts or as long as they continue to be eligible to receive payments. Eligibility to continue to receive benefit payments is determined on a weekly basis. Accordingly, no liability has been recorded for future benefit payments. The maximum remaining amount of benefits payable to unemployed persons at June 30, 2009 is not determinable; however, the amount would be significant to the Fund's financial statements.

(5) Subsequent Events

Subsequent to June 30, 2009, the South Dakota Unemployment Insurance Trust Fund (Trust Fund) was completely depleted. Under the provisions of SDCL 61-5-23, all South Dakota employers will pay an unemployment tax surcharge of 1.5 percent of taxable wages up to the unemployment taxable wage base (\$9,500 at June 30, 2009). The surcharge will remain in effect until the Trust Fund has a balance of \$11,000,000.

Subsequent to June 30, 2009, the State of South Dakota has borrowed money from the United States Treasury to pay unemployment benefits. The State will continue to borrow money to pay unemployment insurance benefits until benefits can be paid from the Trust Fund.

Subsequent events have been evaluated through January 5, 2010, the date which the financial statements are available to be issued.

SUPPLEMENTARY INFORMATION

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2009**

FUNDING SOURCE PROGRAM NAME		FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES (CASH BASIS)
U.S. Department of Labor			
Direct Programs:			
State Unemployment Insurance Benefits (Note 1)	*	17.225	\$ 48,653,653
Federal Unemployment Insurance Benefits	*	17.225	1,984,144
Federal Additional Compensation Unemployment Insurance Benefits (ARRA)	*	17.225	2,776,619
Federal Emergency Unemployment Insurance Benefits (ARRA)	*	17.225	5,079,360
Total Federal Funds Expenditures			\$ 58,493,776

Note 1 - This amount represents the State's expenditures for unemployment benefits and is reported as a major federal program as required by the U.S. Department of Labor and the Inspector General. Included in this balance is \$5,882,545 of state unemployment benefits that were paid with funds from the Federal Unemployment Compensation Modernization Program (ARRA).

* Considered major federal assistance programs pursuant to Department of Legislative Audit requirements.



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REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

Compliance

We have audited the compliance of **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR** (the Fund) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal program for the year ended June 30, 2009. The Fund's major federal program is identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Fund's compliance with those requirements.

As described in Part C - Findings and Questioned Costs -- Major Federal Award Programs Audit, in the accompanying Schedule of Findings and Questioned Costs, the Fund did not comply with requirements regarding allowable costs and reporting that are applicable to its major federal program. Compliance with such requirements is necessary, in our opinion, for the Fund to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Fund complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of the Fund is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Fund's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliances. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

The Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Fund's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as findings 2009-5 and 2009-6 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Fund's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider finding 2009-6 to be a material weakness.

The Fund's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned costs. We did not audit the Fund's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the State's management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

January 5, 2010



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

We have audited the financial statements of the **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR** (the Fund) as of and for the year ended June 30, 2009, and have issued our report thereon dated November January 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 2009-1, 2009-2, 2009-3, and 2009-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Fund's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State's management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

January 5, 2010

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2009**

A. Summary of Audit Results

1. The independent auditor's report expresses an unqualified opinion on the financial statements of the Unemployment Insurance Fund (the Fund).
2. Four significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. These were not considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the Fund were disclosed during the audit.
4. Two deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. One deficiency was considered to be a material weakness.
5. The independent auditor's report on compliance for the major federal award program for the Fund expresses a qualified opinion.
6. Audit findings relative to the major federal award program are reported in Part C of this schedule.
7. The programs tested as major programs include: State and Federal Unemployment Insurance CFDA# 17.225.
8. The threshold used for distinguishing between Type A and B programs was \$4,400,000.
9. The Department was not considered a low risk auditee under the criteria established in OMB Circular A-133.

B. Findings -- Financial Statement Audit

Significant Deficiencies -- Not Considered Material Weaknesses

2009-1: Audit Adjustments

Finding and Analysis: During the course of our audit engagement, we proposed audit adjustments that resulted in significant changes in the Fund's financial statements. Adjustments included recording adjustments to the Fund's cash balances, recording additional accounts receivable, federal benefit payments, a liability for the amount of investment fees due to other state fund, a liability for the amount owed to employers for May and June, a liability for the amount being held for fiscal administration, and a liability for interest and penalties from May and June owed to the Contingency Fund. These adjustments would not have been identified as a result of the Fund's existing internal controls, and therefore, could have resulted in a material misstatement of the Fund's financial statements.

Recommendations: Accounting staff should ensure that year-end balance sheet accounts are reconciled and recorded properly. Normal year-end adjustments should be made by accounting staff. In addition, we recommend changes in operations be continually reviewed for potential changes in accounting so that the appropriate entries can be made throughout the year.

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2009**

B. Findings -- Financial Statement Audit (Continued)

Significant Deficiencies – Not Considered Material Weaknesses (Continued)

2009-1: Audit Adjustments (continued)

Corrective Action Plan: During the next fiscal year we will utilize the senior internal auditor from the Department of Labor, Unemployment Insurance Division, to review our financial statements on a quarterly basis. Sharon Schnabel will be in charge of implementation and review of the corrective action plan.

2009-2: Preparation of the Financial Statements

Finding and Analysis: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the Fund's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. It is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the Fund's management. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide the completed financial statements.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan: We are aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk. Dan Nikolas will be in charge of implementation and review of the corrective action plan.

2009-3: Review of Journal Entry Posting

Finding and Analysis: During the course of our audit engagement, we were informed that the Fund's balance sheet was out of balance by approximately \$60,000. Accounting staff had posted entries during fiscal year 2009 that resulted in the financial statements being out of balance. These entries were not reviewed by management, and the error was not discovered and corrected timely.

Recommendation: Management should ensure that journal entry postings are accurate, and adjusting entries should be reviewed by someone independent of the person initiating the entry on a regular basis.

Corrective Action Plan: During the next fiscal year we will utilize the senior internal auditor to review financial statements on a quarterly basis. Sharon Schnabel will be in charge of implementation and review of the corrective action plan.

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2009**

B. Findings -- Financial Statement Audit (Concluded)

Significant Deficiencies – Not Considered Material Weaknesses (Continued)

2009-4: Postdating of Employer Batches and Reporting of Inaccurate Data

Finding and Analysis: We noted that due to a glitch in the integration of a new internet program, the employer tax department experienced some set-backs in monthly batch processing. This resulted in the batching of May and June 2009 employer tax transactions in September 2009. In doing so, the Fund posted batches as if they had occurred in May or June resulting in a significant misstatement of the Fund's clearing account cash balance. This misstatement resulted in inaccurate reporting of the clearing account book cash balance submitted to the Federal Government.

Recommendation: We recommend the Fund record transactions as of the date they are actually processed and paid.

Corrective Action plans for 2009-4 and 2009-5: Accounting processes were impacted by two events during this audit period. The first was federal legislation which created significant new benefit programs in response to the recession. These programs required administration, tracking and reporting at the state level. The second was implementation of a new internet program which caused delays in monthly batch processing. The May-June employer transactions were delayed until September. They were posted in May-June because the accounting system would not balance if they were not recognized in that quarter. Processing is now current so this type of delay will not happen again. In addition, the accounting group organization has been changed, a senior staff person added and the automated system is being reviewed to eliminate the type of system restrictions that caused this problem. Federal reports are now up-to-date and being filed timely and accurately.

C. Findings and Questioned Costs -- Major Federal Award Programs Audit

Significant Deficiency – Not Considered a Material Weakness

2009-5: Filing of Late and Inaccurate Federal Reports

Finding and Analysis: Due to the Fund falling behind in processing monthly batches, the Fund filed multiple monthly and quarterly federal reports delinquent. Additionally, the Department filed one report intentionally inaccurate to meet the filing deadline.

Recommendation: We recommend the Fund file reports to the Federal Government timely and accurately.

Corrective Action Plan: see corrective action plan included at 2009-4

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2009**

C. Findings and Questioned Costs -- Major Federal Award Programs Audit (Continued)

Significant Deficiency - Considered a Material Weakness

2009-6: Overpayment of Benefit Payments

Finding and Analysis: We noted that one claimant was overpaid unemployment benefits by \$1,196 due to the duplication of wages during two quarters of the base period resulting in an overstated maximum benefit amount. The claim was originally a monetary denial and then was re-determined due to additional wage information received. The duplication of wages occurred as a result of the manual process of inputting wages during a redetermination and failure to zero out the original input of wages that resulted in the initial denial. The total sample tested was \$254,483 of a total population of \$55,717,189.

Recommendation: We recommend that on claims which are originally denied, the individual manually entering the redetermination verify that the original data entered is properly cleared out.

Corrective Action Plan: We agree and will implement this recommendation. Sharon Schnabel will be in charge of implementation and review of the corrective action plan.

Status of Prior Audit Findings

Audit findings 2008-1, 2008-2, and 2008-3 for the year ending June 30, 2008 are repeated as findings 2009-1, 2009-2, and 2009-3, respectively, for the year ending June 30, 2009. The Fund has implemented procedures to tie the manual trial balance to the automated trial balance during the current year; therefore, finding 2008-4 is not repeated in the findings listed above.